

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF SOUTHEAST DAVIESS)
COUNTY WATER DISTRICT FOR AN)
ADJUSTMENT OF RATES PURSUANT TO THE) CASE NO. 2011-00481
ALTERNATIVE RATE FILING PROCEDURE)
FOR SMALL UTILITIES)

ORDER

Pursuant to 807 KAR 5:076, Southeast Daviess County Water District ("Southeast Daviess District"), has applied for an adjustment of rates for water service. By this Order, the Commission establishes rates that will produce additional annual revenues of \$175,435, or a 9.89 percent increase over normalized revenues from rates of \$1,774,635. For a residential customer who consumes 5,000 gallons of water monthly, his or her monthly bill will increase from \$17.71 to \$19.73, or 11.4 percent.

Southeast Daviess District, a water district organized pursuant to KRS Chapter 74, owns and operates facilities that distribute water to approximately 6,461 customers in Daviess County, Kentucky.¹ Its last general rate adjustment occurred in July 2006.²

On December 12, 2011, Southeast Daviess District filed with the Commission its application for an adjustment of its rates for water service. It proposed rates that would

¹ Annual Report of Southeast Daviess County Water District to the Public Service Commission for the Calendar Year Ended December 31, 2010 at 5, 27.

² Case No. 2006-00160, *Application of Southeast Daviess County Water District for Approval of a Proposed Increase in Rates for Water Service* (Ky. PSC July 31, 2006). Since its last general rate adjustment, Southeast Daviess District has adjusted its rates to reflect changes in the cost of purchased water two times. See Case No. 2007-00151, *Purchased Water Adjustment of Southeast Daviess County Water District* (Ky. PSC May 9, 2007); and Case No. 2011-00142, *Purchased Water Adjustment of Southeast Daviess County Water District* (Ky. PSC May 25, 2011).

reportedly produce additional revenues from water sales of \$186,286, an increase of 10.5 percent over pro forma revenues from water sales. For a customer who purchased 5,000 gallons of water monthly, the proposed rates would increase his or her monthly bill from \$17.71 to \$19.97.

On January 30, 2012, Commission Staff issued a report of its findings and recommendations regarding the proposed rate and Southeast Daviess District's operations during the test period. It found that, based upon Southeast Daviess District's test-period operations, Southeast Daviess District required total revenues of \$1,950,070 to meet its reasonable operating expenses and provide for reasonable equity growth. It further found that, to reach this level of revenue, Southeast Daviess District required a rate adjustment to generate additional annual revenue of \$175,435, or 9.886 percent, over normalized revenue from rates of \$1,774,635.

Southeast Daviess District responded to the findings and recommendations contained in Commission Staff's report on February 2, 2012. It stated no objections to those findings and recommendations and further advised that that matter should be submitted to the Commission based upon the existing record. Pursuant to the Commission's Order of December 22, 2012, this matter stands submitted for decision.

Having considered the evidence of record and being otherwise sufficiently advised, the Commission finds that:

1. The findings and recommendations contained in Commission Staff's report are supported by the evidence of record, are reasonable, and should be adopted.
2. The calendar year ending December 31, 2010 should be used as the test period to determine the reasonableness of Southeast Daviess District's existing and proposed rates.

3. Based upon pro forma test-period operations, Southeast Daviess District's pro forma annual revenues are \$1,786,349.

4. Based upon pro forma test-period operations, Southeast Daviess District's pro forma total operating expenses, after adjusting for known and measurable changes, is \$1,828,810.

5. Given that Southeast Daviess District has only one outstanding long-term debt and uses the proceeds of a surcharge to retire this debt, the use of an operating ratio³ to determine its total revenue requirement is appropriate.⁴

6. An operating ratio of 0.88 will permit Southeast Daviess District to meet its reasonable operating expenses and provide for fair and reasonable equity growth and should be used to determine Southeast Daviess District's total revenue requirements.

7. Applying an operating ratio of 0.88 to Southeast Daviess District's pro forma total operating expenses of \$1,828,810 produces a total revenue requirement of \$2,078,193. After elimination of other sources of operating revenue and income, Southeast Daviess District requires \$1,950,070 of revenues from water sales, or \$175,435 more than its current rates produce.

8. Southeast Daviess District's proposed rates will produce revenues from water sales in excess of \$1,950,070.

³ Operating Ratio is defined as the ratio of expenses, including depreciation and taxes, to gross revenues. It is illustrated by the following equation:

$$\text{Operating Ratio} = \frac{\text{Operating Expenses} + \text{Depreciation} + \text{Taxes}}{\text{Gross Revenues}}$$

⁴ See, e.g., Case No. 8468, *An Adjustment of the Rates of Plantation Hill Sewage Treatment Plant, Inc.* (Ky. PSC Jun. 25, 1982); 1 A.J.G. Priest, *Principles of Public Utility Regulation* (Michie 1969) 220-224.

9. The rates set forth in Appendix A will produce the required total revenue requirement and should be approved.

IT IS THEREFORE ORDERED that:

1. The findings and recommendations contained in Commission Staff's report are adopted and incorporated by reference into this Order as if fully set out herein.

2. Southeast Daviess District's proposed rates are denied.

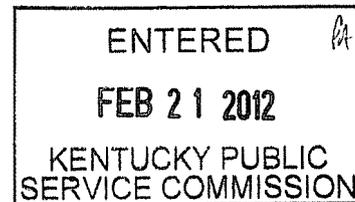
3. The rates set forth in the Appendix to this Order are approved for water service that Southeast Daviess District renders on and after the date of this Order.

4. Within 20 days of the date of this Order, Southeast Daviess District shall file a revised tariff sheet with the Commission setting forth the rates approved in this Order.

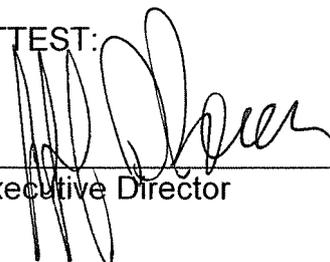
5. The informal conference and hearing scheduled in this matter are cancelled.

6. This matter is closed and shall be removed from the Commission's docket.

By the Commission



ATTEST:



Executive Director

APPENDIX

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2011-00481 DATED FEB 21 2012

The following rates and charges are prescribed for the customers in the area served by Southeast Daviess County Water District. All other rates and charges not specifically mentioned herein shall remain the same as those in effect under authority of the Commission prior to the effective date of this Order.

Customer Charge:

5/8-inch x3/4-inch Meter	\$2.53
1-inch Meter	\$3.54
1 1/2-inch Meter	\$4.55
2-inch Meter	\$7.34
3-inch Meter	\$27.83
4-inch Meter	\$35.42
6-inch Meter	\$53.13
8-inch Meter	\$73.37

Volumetric Rate:

First 20,000 gallons	\$3.44 per 1,000 gallons
Over 20,000 gallons	\$2.59 per 1,000 gallons
Wholesale Rate	\$1.85 per 1,000 gallons

Keith Krampe
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